Answer: 1

(a) **Discharge of Surety by Revocation (Problem):** {As per section 130 of the India Contract Act, 1872 a specific guarantee cannot be revoked by the surety if the liability has already accrued.**(1M)**}{A continuing guarantee may, at any time, be revoked by the surety, as to future transactions, by notice to the creditor, but the surety remains liable for transactions already entered into.**(2M)**} {As per the above provisions, the answer is Yes. Ravi is discharged from all the subsequent loans because it’s a case of continuing guarantee. Where as in second case (ii) Ravi is liable for payment of Rs. 20,000 to Nalin because the transaction has already completed.**(3M)**}

(b) **Problem on Agency:** {Problem as asked in the question is based on the provisions related with the modes of creation of agency relationship under the Indian Contract Act, 1872. Agency may be created by a legal presumption; in a case of cohabitation by a married woman (i.e. wife is considered as an implied agent, of her husband). If wife lives with her husband, there is a legal presumption that a wife has authority to pledge her husband’s credit for necessaries. **(2M)**}

{But the legal presumption can be rebutted in the following cases:

(i) Where the goods purchased on credit are not necessaries.

(ii) Where the wife is given sufficient money for purchasing necessaries.

(iii) Where the wife is forbidden from purchasing anything on credit or contracting debts.

(iv) Where the trader has been expressly warned not to give credit to his wife.**(2M)**}

{If the wife lives apart for no fault on her part, wife has authority to pledge her husband’s credit for necessaries. This legal presumption can be rebutted only in cases (iii) and (iv).

Applying the above conditions in the given case ‘Q’ will succeed. He can recover the said amount from ‘P’ if sarees purchased by ‘R’ are necessaries for her.**(2M)**}

(c) **The problem is based upon the privileges of a ‘holder in due course’, Section 120 of the Negotiable Instruments Act, 1881 provides that No…… drawer of a bill shall in a suit thereon by a holder in due course be permitted to deny the validity of the
instrument as originally drawn. ....... A holder in due course gets a good title of the bill.\textsuperscript{(2M)}

\{(Therefore in the given problem J is liable to pay for the bill. L is a holder in due course, who got the bill in good faith and for value. (Ingham v Primrose).\textsuperscript{(2M)}\}

\{The Companies Act, 2013 does not prescribe any qualification for membership. Membership entails an agreement enforceable in a court of law. Therefore, the contractual capacity as envisaged by the Indian Contract Act, 1872 should be taken into consideration.\textsuperscript{(1M)}\}

\{It was held in the case of MohoriBibiVs. DharmadasGhose (1930) 30 Cal. 531 (P.O.) that since minor has no contractual capacity, the agreement with a minor is void. Therefore, a minor or a lunatic cannot enter into an agreement to become a member of the company.\textsuperscript{(1M)}\}

\{However, it is an established matter of law as evidenced in a number of cases, that in case a minor is bound in a contractual relationship he shall enjoy the benefits under the contract without being liable for anything. Hence, if the company registers the minor as a member, he will incur no liability for the company as long as he is a minor. Going by practical legal application, companies do not register minor as members at all.\textsuperscript{(1M)}\}

\{In view of the above, M/s Honest Cycles Ltd may still give membership to Balak through the transfer of 1000 shares, as the shares are fully paid up and no further liability is attached to them in any case.\textsuperscript{(1M)}\}

Answer: 2

(a) \{Meaning of rule Harmonious Construction: When there is doubt about the meaning of the words of a statute, these should be understood in the sense in which they harmonise with the subject of the enactment and the object which the legislature had in view. Where there are in an enactment two or more provisions which cannot be reconciled with each other, they should be so interpreted, wherever possible, as to give effect to all of them. This is what is known as the Rule of Harmonious Construction. \textsuperscript{(2M)}\}

\{It must always be borne in mind that a statute is passed as a whole and not in sections and it may well be assumed to be animated by one general purpose and intent. The Court’s duty is to give effect to all the parts of a statute, if possible. But this general principle is meant to guide the courts in furthering the intent of the legislature, not overriding it.\textsuperscript{(2M)}\}

\{Application of the Rule: The Rule of Harmonious Construction is applicable only when there is a real and not merely apparent conflict between the provisions of an Act, and one of them has not been made subject to the other. When after having construed their context the words are capable of only a single meaning, the rule of harmonious construction disappears and is replaced by the rule of literal construction.\textsuperscript{(2M)}\}

(b) \{The problem asked in the question is based on the provisions of section 160 and 161 of the Indian Contract Act, 1872. Accordingly, it is the duty of the bailee to return or deliver the goods bailed according to the bailor’s directions, without demand, as soon as the time for which they were bailed has expired, or the purpose for which they were bailed has been accomplished. According to Section 161, if, by the default of the
bailee, the goods are not returned, delivered or tendered at the proper time, he is responsible to the bailor for any loss, destruction or deterioration of the goods from that time, notwithstanding the exercise of reasonable care on his part. (4M)}

{Therefore, applying the above provisions in the given case, Mahesh is liable for the loss, although he was not negligent, but because of his failure to deliver the car within a reasonable time (Shaw & Co. v. Symmons & Sons). (2M)}

(c) Dishonour of Cheque – Grounds: A banker will be justified or bound to dishonor a cheque in the following cases, viz;

- If a cheque is undated, if it is stale, that is if it has not been presented within reasonable period, which may vary three months to a year after its issue dependent on the circumstances of the case
- If the instrument is inchoate or not free from reasonable doubt
- If the cheque is post-dated and presented for payment before its ostensible date
- If the customer’s funds in the banker’s hands are not ‘properly applicable’ to the payment of cheque drawn by the former. Thus, should the funds in the banker’s hands be subject to a lien or should the banker be entitled to a set-off in respect of them, the funds cannot be said to be “properly applicable” to the payment of the customer’s cheque, and the banker would be justified in refusing payment.
- If the customer has credit with one branch of a bank and he draws a cheque upon another branch of the same bank in which either he has account or his account is overdrawn.
- If the bankers receive notice of customer’s insolvency or lunacy
- If the customer countermands the payment of cheque for the banker’s duty and authority to pay on a cheque ceases
- If a garnishee or other legal order from the Court attaching or otherwise dealing with the money in the hand of the banker, is served on the banker
- If the authority of the banker to honor a cheque of his customer is undermined by the notice of the latter’s death. However, any payment made prior to the receipt of the notice of death is valid.
- If notice in respect of closure of the account is served by either party to the other.
- If it contains material alterations, irregular signature or irregular endorsement.

(d) {Forfeiture of Shares and the Consequences

The Companies Act, 2013 prescribes the rules and procedures of forfeiture of shares to be mentioned in the Articles of Association. Therefore, the forfeiture of shares is governed by the Articles rather than the Act itself. However, Table F of the First Schedule of the Act lays down the draft Articles of a company limited by shares which may be adopted either in full or with some modifications. In accordance with the Act and Table F the conditions and applicable rules for forfeiture of shares are as under-

1. In accordance with the Articles: Forfeiture-must be authorized by the Articles of the company and must be for the benefit of the company.
2. Notice prior to forfeiture: Before shares can be forfeited, the company must serve a notice on the defaulting shareholder requiring payment of unpaid call together with any interest which may have accrued. (Article 28: Table F).
3. Give not less than 14 days time from the date of service of notice for the payment of the amount due (Article 29 of Table F);
4. State that in the event of non-payment of the amount due within the period mentioned in the notice, the shares in respect of which the call was made will be liable to be forfeited, (Article 29. Table F). The notice of forfeiture must also
specify the exact amount due from the shareholder. If the notice is defective in any respect, the forfeiture will be invalid.

5. Resolution of the Board: If a defaulting shareholder does not pay the amount within the specified time as required by the notice, the directors must pass a resolution forfeiting the shares (Article 30). If the resolution is not passed, the forfeiture is invalid. If, however, the notice threatening the forfeiture incorporates the resolution of forfeiture as well, e.g., when it states that in the event of default the shares shall be deemed to have been forfeited, no further resolution is necessary.

6. Good faith: The power to forfeit shares must be exercised by the directors in good faith and for the benefit of the company. (2M)

**Effect of forfeiture:**

1. Cessation of membership: A person whose shares have been forfeited ceases to be a member in respect of the shares so forfeited. He, however, remains liable to pay to the company all moneys which, at the date of forfeiture were payable by him to the company in respect of the shares.

2. Cessation of liability: The liability of the person whose shares have been forfeited ceases if and when the company receives payment in full of all such money in respect of the shares.

3. Forfeited shares become the property of the company and may be reissued or otherwise disposed of on such terms and in such manner as the Board thinks fit. The purchaser would be liable to pay all the calls due on the shares including the call for which shares were forfeited. But where the articles provide that a shareholder whose shares have been forfeited is to remain liable for the call occasioning the forfeiture, the purchaser is liable only for the difference between the amount of the call and the sum realized on reissue, should this be less than the call. (2M)

**Answer:** 3

(a) **Calculation of maturity of a Bill of Exchange:** The maturity of a bill, not payable on demand, at sight, or on presentment, is at maturity on the third day after the day on which it is expressed to be payable (Section 22, para 2 of Negotiable Instruments Act, 1881). Three days are allowed as days of grace. No days of grace are allowed in the case of bill payable on demand, at sight, or presentment.

When a bill is made payable at stated number of months after date, the period stated terminates on the day of the month which corresponds with the day on which the instrument is dated. When it is made payable after a stated number of months after sight the period terminates on the day of the month which corresponds with the day on which it is presented for acceptance or sight or noted for non-acceptance or protested for non-acceptance. When it is payable a stated number of months after a certain event, the period terminates on the day of the month which corresponds with the day on which the event happens (Section 23).

When a bill is made payable a stated number of months after sight and has been accepted for honour, the period terminates with the day of the month which corresponds with the day on which it was so accepted. (2M)

If the month in which the period would terminate has no corresponding day, the period terminates on the last day of such month (Section 23).
In calculating the date a bill made payable a certain number of days after date or after sight or after a certain event is at maturity, the day of the date, or the day of presentment for acceptance or sight or the day of protest for non-accordance, or the day on which the event happens shall be excluded (Section 24).

Three days of grace are allowed to these instruments after the day on which they are expressed to be payable (Section 22).

When the last day of grace falls on a day which is public holiday, the instrument is due and payable on the next preceding business day (Section 25).

{Answer to Problem: In this case the day of presentment for sight is to be excluded i.e. 4th May, 2000. The period of 100 days ends on 12th August, 2000 (May 27 days + June 30 days + July 31 days + August 12 days). Three days of grace are to be added. It falls due on 15th August, 2000 which happens to be a public holiday. As such it will fall due on 14th August, 2000 i.e. the next preceding business day. (2M)}

(b) {Holding, subsidiary relationship: In terms of section 2 (87) of the Companies Act 2013, a company will be the subsidiary of a company which holds a majority of shares in it through its subsidiary company or companies. (3M)}

{In this case XYZ Pvt Ltd. and BCL Pvt Ltd. together hold a majority of equity shares in AVSP Pvt Ltd. and both these companies are subsidiaries of TSR Pvt Ltd it will have a majority stake in the composition of the Board of Directors of AVSP Pvt Ltd. Hence, TSR Pvt Ltd will be treated as the holding company of AVSP Pvt Ltd. (3M)}

(c) {Irregular allotment: The Companies Act, 2013 does not separately provide for the term “Irregular Allotment” of securities. Hence, one will have to examine the requirements of a proper issue of securities and consider the consequences of non-fulfilment of those requirements.

In broad terms an allotment of shares is deemed to be irregular when it has been made by a company in violation of Sections 23, 26, 39 and 40. Irregular allotment therefore arises in the following instances:

1. Where a company does not issue a prospectus in a public issue as required by section 23; or
2. Where the prospectus issued by the company does not include any of the matters required to be included therein under section 26 (1), or the information given is misleading, faulty and incorrect; or
3. Where the prospectus has not been filed with the Registrar for registration under section 26 (4);
4. The minimum subscription as specified in the prospectus has not been received in terms of section 39; or
5. The minimum amount receivable on application is less than 5% of the nominal value of the securities offered or lower than the amount prescribed by SEBI in this behalf; or
6. In case of a public issue, approval for listing has not been obtained from one or more of the recognized stock exchanges under section 40 of the Companies Act, 2013 (2M)}

{Effects of irregular allotment: The consequences of an irregular allotment depend on the nature of irregularity. However, the Companies Act, 2013 does not mention
(unlike the previous Companies Act) that in case of an irregular allotment the contract is voidable at the option of the allottee.

Under section 26 (9) of the Companies Act, 2013 if a prospectus is issued in contravention of the provisions of section 26, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees and every person who is knowingly a party to the issue of such prospectus shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees, or with both.

Similarly in case the company has not received the minimum subscription amount within 30 days of the date of issue of the prospectus, it must refund the application money received by it within the stipulated time. Any allotment made in violation of this will be void and the defaulting company and officers will be liable to further punishment as provided in section 39 (5).

Under section 40 (5) any default made in respect of getting the approval to listing of securities in one or more recognized stock exchange in case of a public issue, will render the company punishable with a fine which shall not be less than five lakh rupees but which may extend to fifty lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees, or with both.

Hence, under various provisions of the Companies Act, 2013 stringent punishment has been provided for against irregular allotment of securities but the option of going ahead with such allotment even if desired by the allottee is not specifically permitted.\(\text{(2M)}\)

(d) \{As per Rule 3 of the Companies (Declaration and Payment of Dividend) Rules), 2014, in the event of inadequacy or absence of profits in any year, a company may declare dividend out of surplus subject to the fulfillment of the following conditions:

1. The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year; Provided that this sub-rule shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.

2. The total amount to be drawn from such accumulated profits shall not exceed one-tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement;

3. The amount so drawn shall first be utilised to set off the losses incurred in the financial year in which dividend is declared before any dividend in respect of equity shares is declared;

4. The balance of reserves after such withdrawal shall not fall below 15% of its paid up share capital as appearing in the latest audited financial statement.\(\text{(2M)}\)\}

\{In the given case therefore, the company can declare a dividend of 20% provided it has the required residual reserve, after such payment, of 15% of its paid up capital as appearing it its latest audited financial statement. The company should have the dividend recommended by the Board and put up for the approval of the members at the Annual General Meeting as the authority to declare lies with the members of the company.\(\text{(2M)}\)\}

Where debentures are issued by a company under Section 71 of the Companies Act, 2013, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for the redemption of debentures.

As per the Companies (Share Capital and Debentures) Rules, 2014, the company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below:

(a) The Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;

(b) The company shall create Debenture Redemption Reserve (DRR) in accordance with the following conditions:

(i) No DRR is required for debentures issued by All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures. For other Financial Institutions (FIs) within the meaning of clause (72) of Section 2 of the Companies Act, 2013, DRR will be as applicable to NBFCs registered with RBI.

(ii) For NBFCs registered with RBI under Section 45-1A of the RBI (Amendment) Act, 1997, the adequacy of DRR will be 25% of the value of debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities) Regulations, 2008, and no DRR is required in the case of privately placed debentures.

(iii) For other companies including manufacturing and infrastructure companies the adequacy of DRR will be 25% of the value of debentures issued through public issue as per present SEBI (Issue and Listing of Debt Securities) Regulations, 2008 and also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of debentures.

The Companies (Share Capital and Debentures) Rules, 2014 issued by the Ministry of Corporate Affairs (MCA) on 27th March, 2014, required companies to create debenture redemption reserve (DRR) equivalent to atleast fifty per cent of the amount raised through the debenture issue. Subsequently, the rules published in the Official Gazette on 3rd April, 2014 (effective from 1st April, 2014), changed the above requirement for creation of DRR.

The Gazette Rules exempt certain companies from creation of DRR and in case of other companies, reduce the percentage of DRR from 50% to 25% of the value of debentures.

Every company required to create Debenture Redemption Reserve shall on or before 30th day of April in each year, as the case may be, a sum which shall be not less than 15%, of the amount of its debentures, maturing during the year ending on 31st day of March of the next year, in any one or more of the following methods, namely:

(i) in deposits with any scheduled bank, free from any charge or lien;
(ii) in unencumbered securities of the Central Government or any State Government;
(iii) in unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of Section 20 of the Indian Trust Act, 1882;
(iv) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of Section 20 of the Indian Trust Act, 1882;
(v) the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above: Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below 15% of the amount of the debentures maturing during the year ending on the 31st day of March of that year. (2M)
(d) {in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.
(e) the amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of redemption of debentures. (1M)}

(b) {Allotment of Shares: The company has received 80% of the minimum subscription as stated in the prospectus. Hence, the allotment is in contravention of section 39(1) of the Companies Act, 2013 which prohibits a company from making any allotment of securities until it has received the amount of minimum subscription stated in the prospectus. (2M)}
{Under section 39 (3), it is required to refund the money received (i.e. 80% of the minimum subscription) to the applicants. It has no other option available. (1M)}
{Therefore, in the present case X is within his rights refuses to accept the allotment of shares which has been illegally made by the company. (2M)}

(c) False statement in Prospectus under the Companies Act, 2013
(i) {Yes, X is liable to pay the unpaid amount on the shares. As X has purchased partly paid shares, so he is liable for the remaining value of the shares. At the time of winding up he is liable to contribute as a contributory. The related case law in this subject matter is Peak vs. Gurney. (2M)}

(ii) {No, X cannot sue the directors to recover damages for the misstatement in the prospectus. The shareholder must have relied on the statement in the prospectus in applying for shares offered by it to hold the responsible persons liable. If a person purchases shares in the open market, the prospectus is non operative as far as he is concerned. In the present case, Mr. X purchased shares on the stock exchange even if he did so on good faith he had not relied on the statement in prospectus. Therefore, he cannot sue the directors of the company to recover damages. (3M)}

(d) {Distribution of Rupees Twenty Lacs by a company engaged in Chemical manufacturing is not 'Ultravires' since it was conducive to the continued growth of the company as chemical manufacturers (Evans vs Brunner, Mood & Co. Ltd.1921). (2M)}
{In order for a contract to be ultra vires, it would be essential to refer to its objects clause. Restrictions of the type mentioned in the question are not an item of the Objectives Clause. Hence, the issue of ultra vires does not arise to such a donation. (3M)}

Answer: 5
(a) {Section 124 of the Indian Contract Act, 1872 says that "A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or the conduct of any person", is called a "contract of
indemnity”. (3M)
{Section 126 of the Indian Contract Act says that “A contract to perform the promise made or discharge liability incurred by a third person in case of his default.” is called as “contract of guarantee”. (2M)}

(b) Proviso:-
• {A proviso makes an exception to the main provision of the act. (2M)}
• {A proviso is added to a section of an act to except something or quality something started in a particular section}
• A proviso does not state a general rule. (3M)

(c)
• {Statutory definitions can be used in interpretation whether or not the words used in a statute are ambiguous.}
• **Exhaustive definition:-**
  - The use of the word ‘means’ and ‘means and include’ imply that a definition is exhaustive.
  - If exhaustive definition is given for a term then meaning of definition must be restricted to the meaning given in the definition. (3M)
• **Inclusive Definition:-**
  - Use of the word include imply that definition is inclusive.
  - Such word can also include something else in addition to the meaning assigned in definition (2M)

(d)
• {The term ejusdem generis means of the same kind or species.}
• As per this rule general words following specific words are to be construed or interpreted with reference to specific worlds.
• As per this rule where specific words are used and after these specific words some general words are used, the general words would take their colour from the specific words used earlier.
• **Ex:** where an act permitted keeping of dogs, cats, cows, buffalos and other animals, the expression “other animals” would not include wild animals like lions and tiger. (2M)

{Applicability of rule “Ejusdem Generis”}
• There are some specific words & they must belong to a class or category.
• Specific words must not exhaust the whole category.
• There are some general words following specific words. (2M)

{Non Applicability of Rule “Ejusdem Generis”}
• Where specific words are of different categories.
• When specific words exhaust whole category.
• Court has the discretion to apply or not this rule. (1M)

Answer 6
(a) (i) {year – year means the period starting from first January and ending on 31st December. (2M)}
(ii) {Financial year – Starting from 1st April ending on next 31st march. (3M)}
(B) ‘Relative’, with reference to any person, means any one who is related to another, if—
   i) They are members of a Hindu Undivided Family;
   ii) They are husband and wife; or
   iii) One person is related to the other in such manner as may be prescribed.
   A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely; *(2M)*
   
   (1) Father (including step-father)  
   (2) Mother (including step-Mother)  
   (3) Son (including step-son)  
   (4) Son's wife  
   (5) Daughter  
   (6) Daughter's husband  
   (7) Brother (including step-brother)  
   (8) Sister (includes step-sister) *(3M)*

(c)  

<table>
<thead>
<tr>
<th>1. {Manner of appointme of first auditor}</th>
<th>Case I [Sec. 139(7)]</th>
<th>Case II [sec. 139 (6)]</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company is a Government company or any other company owned or controlled, directly or indirectly, by CG, or by SG(s), or partly by CG and partly by SG(s);</td>
<td>(i) Appointment by CAG within 60 days of registration of the company.</td>
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<td>(ii) If CAG fails to appoint the first auditor within 60 days, the Board shall appoint the first auditor within next 30 days.</td>
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<td></td>
<td>(iii) If the Board fails to appoint the first auditor within 30 days, the board shall inform the members of the company who shall appoint the first auditor within 60 days at an extraordinary general meeting. <em>(2M)</em></td>
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<tr>
<th>2. {Tenure of first auditor}</th>
<th>The first auditor shall hold office till the conclusion of the first AGM [Sec. 139(6) and 139(7)]. <em>(1M)</em></th>
</tr>
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(e) **Types of Dividend**

<table>
<thead>
<tr>
<th>Final Dividend</th>
<th>Interim Dividend</th>
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<tbody>
<tr>
<td>• Recommended by Board</td>
<td>• Recommended by Board</td>
</tr>
<tr>
<td>• Approved by members by Passing of ordinary resolution at AGM</td>
<td>• Approved by Board</td>
</tr>
<tr>
<td>• Members can decrease the rate of dividend but members cannot Increase the rate of Dividend</td>
<td>• It is the dividend declared between two AGM</td>
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